RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Aug. 2, 1995 **LETTER 1179**

THE PICTURE: The stock market is at times boring, at times exciting -- most of the time mysterious. But one thing the stock market is not -- it's most emphatically *not a free ride to riches.* Those who have made money in stocks over the years have (with very few exceptions) paid their dues. They know the market's anything but a free ride.

Currently, the public is loaded with stocks, loaded for the most part through the services of 5,000 assorted mutual funds. Confession -- I've been involved with the markets since 1946, and I've never seen the public come out substantially ahead in the stock market *over any extended period of time.*

Is this time the exception? Is this the time when the public, after pouring hundreds of billions of dollars into the market, is fated to come out ahead? The market's a fair game, and I'm aware that anything can happen where the market is concerned. But somehow, I doubt whether the public (which has never paid its dues) will come out of this bull market with more than they came in with. Call me a cynic. Call me a dirty dog. Call me a spoil-sport. The above is my opinion based on experience.

THE MARKET: The Dow dropped 107 points in two days (July 18 and 19), and the question was immediately asked, "Is there a danger that this market is in the process of topping out? Is it possible that the greatest bull market in history is on its death bed?" History tells us that where Wall Street is concerned, anything is possible. And then there's the old adage, "Before walking a mile you've got to take that first step." Transfer that adage to the world of finance and we get, "Before a bear market gets rolling, you must start with that first day down."

It's well to remember that up to now we've had the most extraordinarily *uncorrected* bull market in history. Consider the following -- since this great bull market began in 1974 we've never had a year in which the Dow closed below the low of a preceding year. Since 1990 the Dow has not had a correction of as much as 10%. And since December 1994 we haven't had a correction in the Dow of as much as 3%.

In the last Letter I noted that the D-J Transportation Average had finally confirmed the new highs in the Dow. I stated that this did NOT constitute a buy signal; it simply told us that the primary trend of the market was still bullish and that all the action since last December was part of a *continuing* bull market.

I also stressed that each successive confirmation in a bull market possessed *less authority* than the preceding, until finally we will see a confirmation which will be the last one -- prior to the inception of the next bear market.

All right, let's skip stock market sentiment and opinions and turn to what's actually happening and what could happen. For this purpose, I've included a number of critical charts on page 2. Of course, the page also includes the PTI and A-D chart. Here we see that the PTI has climbed to *fresh new highs, and as long as this is occurring, the pressure in the market will be to the upside.* (Note: for **latest on the price action,** please see Late Notes on page 6.)

The first chart is a daily chart (logarithmic scale) of the Dow, going back to January. The rising trendline that you see on the chart has

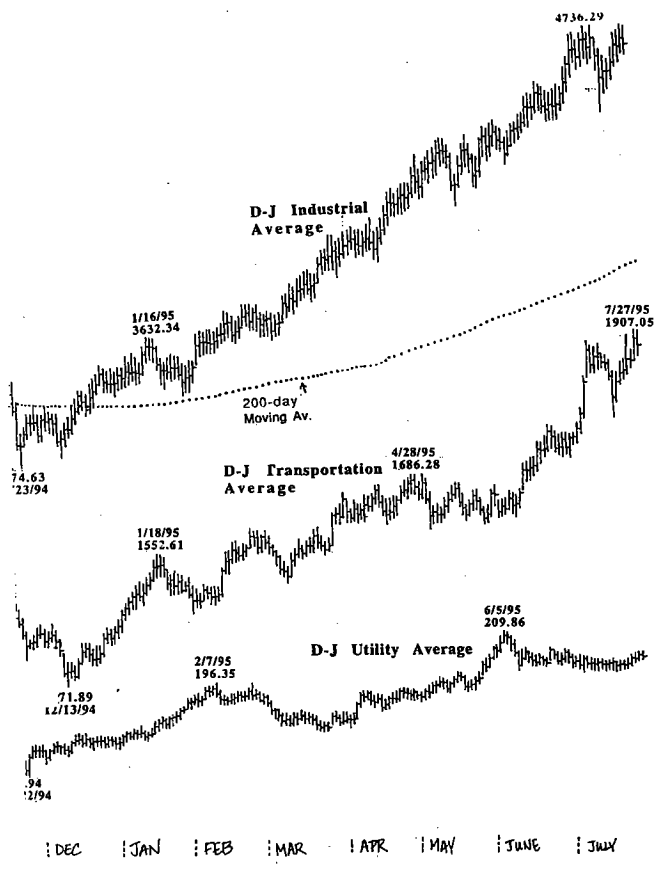
July 21 DJIA 4641.55; PTI 4209; A-D Ratio -4.70
July 28 DJIA 4715.51; PTI 4229; A-D Ratio -4.08
Dow Yield: 2.42%; Dow Price/Earnings: 14.7
Dow 200-day MA: 4121; Dow 30-day MA: 4635
Dow Times Book Value: 43.61; PTI 89-day MA: 4135
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 384.54; Gold-PTI: 698

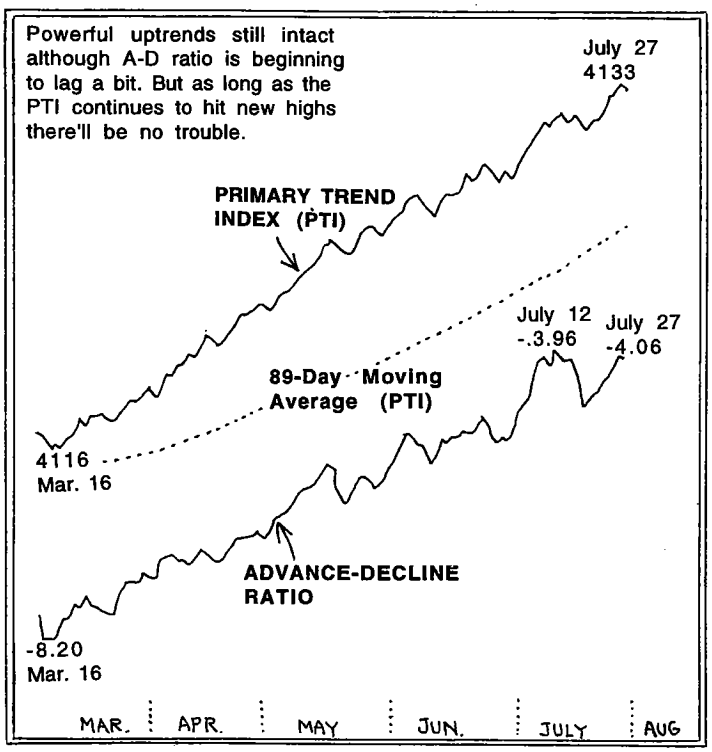
been in force since last March. The Dow has "tested" that trendline six times. The more times the price movement bounces off a trendline, the more valid or authoritative is that trendline. Anything down to Dow 4600 or below would represent a breaking of the bullish trendline. If that happens, it would be very significant and a first for 1995. BUT remember -- it hasn't happened yet.

The second chart traces the action of the S&P 500 Composite, an index that many analysts feel is more representative of "the market" than is the Dow. Here a value of 545 or lower would represent a violation of the rising trendline. I would take a violation of the rising trendline on the S&P very seriously. Remember -- it hasn't happened yet.

The third chart traces the D-J Transportation Average going back to January. The Transports have rallied far above their rising trendline, and it would require a decline below 1675 to violate this trendline. Although the Transports were very late in confirming the Industrials, the Transports have recently been performing better than the Industrials.

The fourth chart is daily and takes the Treasuries back to January. Here we see that a "head-and-shoulders" pattern formed during June-July, with the July break taking the bonds down to test the

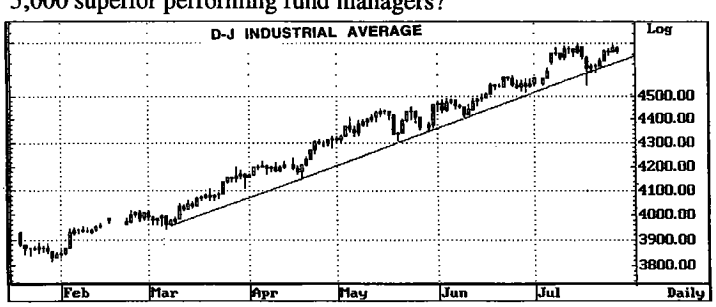


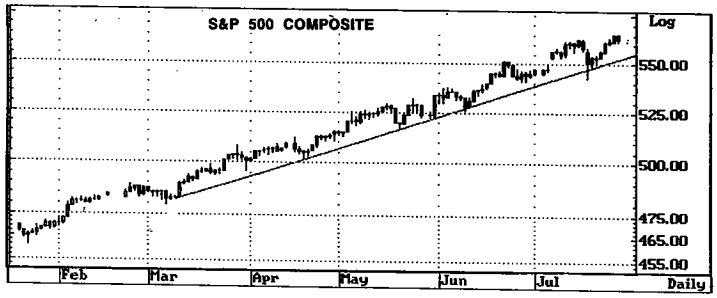


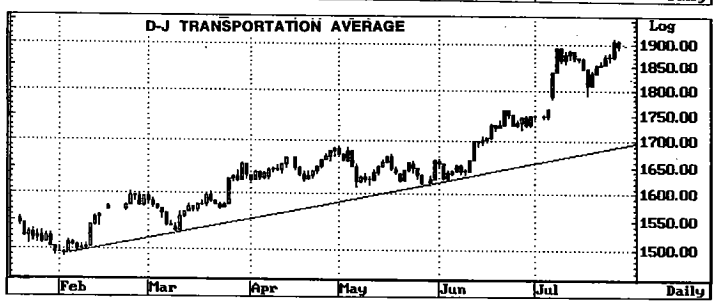
rising trendline. Anything substantially below 110 would represent a serious reversal of the rising trend. Since the stock market tends to trade off the bonds (and, of course, interest rates), the trend of the bonds is extremely important.

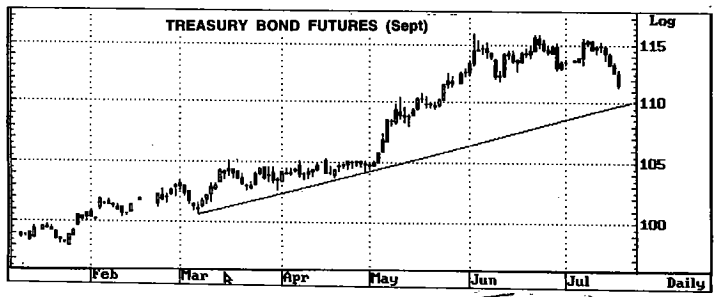
NOTES: A major impetus behind the huge rise in the stock market has been the steady 401(k) money. According to many managers, 401(k) money is changing the nature of mutual funds. For millions of workers, the 401(k) is their principal retirement vehicle. Many workers are now automatically pouring their 401(k) savings into the stock market via mutual funds. Thus, many fund managers are currently counting on *regular inflows* of this money. At the end of 1994 28% of the $525 billion in 401(k) assets was in mutual funds. The estimate (if present trends continue) is that by the year 2000 mutual funds could be managing one-third of the expected $1.2 trillion in 401(k) assets. **Russell comment:** It sounds good, but of course, you know what I think of projections of this kind.

However, the proliferation of mutual funds is mind-boggling. There are now 6,704 funds of all kinds including general equity funds, sector funds, international equity funds, muni bond and taxable bond funds. Since 1990 5,000 funds have been formed. Of investors interviewed by *Money* magazine, 72% said that they owned one to five funds, 20% owned more than five. Most popular were domestic equity funds. **Comment:** the majority of equity mutual funds have not kept pace with the S&P. The reason is obvious -- 5,000 FUNDS LITERALLY ARE THE MARKET. When you figure bid-and-asked and commissions and late-buying and follow-the-leader, it's not difficult to understand why the *majority* of funds will lag the averages. Besides, can you have 5,000 superior performing fund managers?



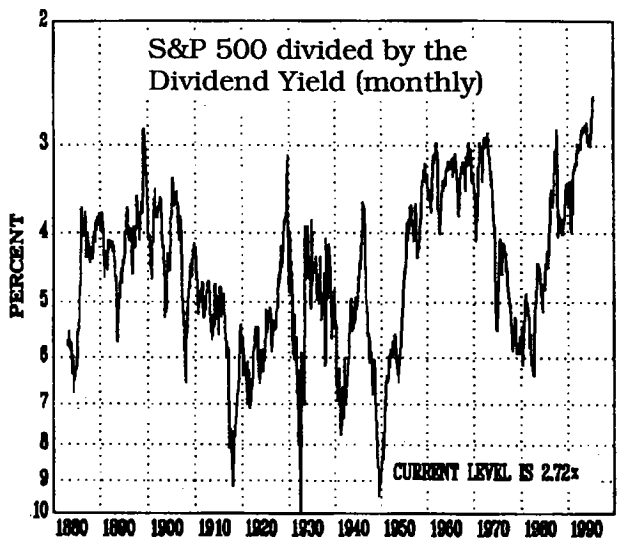






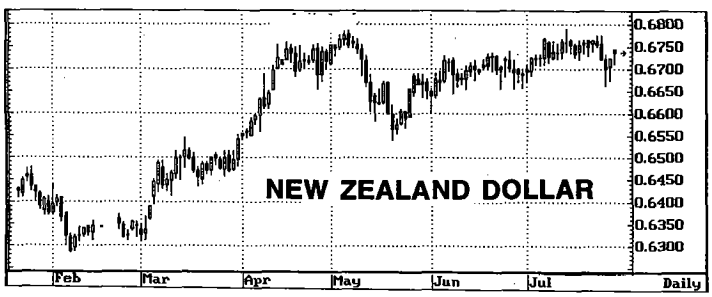
INVESTMENT POSITION: With Industrials and Transports both at highs and with the Primary Trend Index leading the way, the bull remains in the box. Advice also remains the same -- if you have stocks, stay with them. If you don't have stocks, stand aside (the situation is too dicey). If you can't decide what to do, consider at this point that the only reason to hold stocks is that they may go higher (remember, the average yield on stocks is now less than half what you can obtain on safe Treasury bills).

This concentrated chart of S&P divided by dividend yields shows that stocks now buy less in the way of dividends than any time in history. Therefore, this time "it damn well better be different." But will it be? (Chart courtesy of Smith Barney Research).



NZ: Things can and do change, even in nations, as notes the following: "New Zealand. This is one of the brightest in the world's 'haven heavens'. In the last ten years New Zealand has transformed itself from one of the most socialistic, debt-burdened world economies, to one of the most capitalistic and vibrant ones. Many government functions have already been privatized at tremendous taxpayers savings and plans are laid to privatize the remaining government and educational and medical services. NZ says it'll be entirely free of government debt by 1998. There are no capital gains or estate taxes and the once suffocating income tax rate continues to improve with each passing year. Best of all, the government has put in place plans to abolish income taxes. Watch NZ! If it continues on its present course, it'll skyrocket to the top of the world's most desirable financial havens." The above is from "How to Keep Your Money and Freedom, The World's Best Tax and Money Havens" by my old buddy, Harry Schultz, and Gordon Frisch. HSL, PO Box 622, CH-1001 Lausanne, Switzerland.

Well run, prosperous nations tend to possess good currencies. The accompanying chart shows the New Zealand dollar, daily. Over the last year the NZ dollar has gained almost 20% against the US dollar. Subscribers might cut this section out and send it to their local Congressmen or Senators -- hopefully, something might rub off on them. Yep, it's always a pleasure to see a country on the right path. NZ, NZ, NZ!!!



BIG LOSSES: I was struck by a quote I read recently, a quote from famed football coach Jimmy Johnson (formerly coach of the Dallas Cowboys): *"It's kind of like the thing I always told all of our players, but in particular our quarterbacks, 'It's not how many great plays you make, but how many bad plays you don't make that determines how much you win'."*

These are very wise words -- top executives in every industry must apply this to their own businesses. To be successful, you must avoid disastrous mistakes or miscalculations. Every stock or commodity trader knows this (or if he doesn't, he'll learn it the hard way). Back in the '40s I worked for a very wise boss. One day he took me aside and said, "Russell, you may think I'm a doom-and-gloomer, but let me tell you something. It's true, I do concentrate a lot on what can go wrong. And you know why? It's because the good things take care of themselves, but it's the bad things that can kill you."

I never forgot his words, and those words can be applied to everything from business to football. As a matter of fact, that's why they say in football, "Great offenses bring in the crowds, but great defenses win games." Translation -- a great offense brings you touchdowns, crowd approval, excitement. But a great defense prevents disasters, and very often wins games since it prevents the other team from scoring.

As for the stock market of today, a lot has been said about why "this time it's different, and why yields don't count any more." But safe, well-protected yields can be your best friend in a bear market. When the market is headed down, there's a big advantage in holding a high-quality stock with a fat, well-protected yield. Why? Because you know that stock will ultimately come back, and meanwhile you're getting paid for sitting with it.

But how about a stock with a 1% yield or no yield at all? During a major decline you start thinking, "Suppose my stock drops to a 3% or even a 2% yield? If that happens I'll get killed." Believe me, in the next bear market the significance and value of stock yields will re-emerge. I've seen it before -- it happens in EVERY bear market.

NOTES & QUOTES: When the experts go wrong, they REALLY go wrong. Back in 1992 the "Gang of 33" (a world class collection of experts) predicted that "Japan's output of computers and computer-related products would pass that of the US later this decade." It never happened. The actual trend -- in computers, the US has wiped out the Japanese and all other competitors. It's a Compaq or an Apple or an IBM that graces the desktops of most companies throughout the world. As for software, the Japanese are not even a factor. Around the globe, US companies are the overwhelming leaders.

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Just as S. Korea is obsessed with beating Japan, Dreamworks' Jeffrey Katzenberg dreams of beating Disney. Last week Dreamworks announced that it was hiring two of the top executives from Disney's animation department. Reasons: Japan overran Korea and treated the Koreans like dogs, enslaving many of them. Eisner, Disney's chief, denied Katzenberg top status. In anger, Katzenberg quit, but you can bet that he's obsessed with thoughts of revenge.

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The "cheap-cheaper-cheapest" dollar hasn't done much for our trade balance, which in May came in at a negative $11.4 billion, another record. What's killing the balance is America's unabated thirst for foreign products.

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All of which brings up last week's news that the US' last TV manufacturer, Zenith, was taken over by LG, a S. Korean giant. The history of US manufacturing of televisions is rather sad. At one time there were 14 TV manufacturers. Admiral sold out to Rockwell, which stopped making TVs in '78 (I had an Admiral, which was cheap and good). CBS halted manufacture in the mid-'50s. Crosley stopped in the mid-'50s. Dumont sold out to Emerson, which sells them but does not make them. GE sold the RCA and GE brands to NV of Holland. Motorola sold out to Matsushita (I had a Motorola, too). Packard-Bell sold out to Teledyne which halted production in '74. Philco sold out to GTE which sold out to Philips. RCA was acquired by GE. Sylvania sold out to GTE which sold to Philips. Westinghouse halted production in '70 (Sylvania had a top name in TV, and I had one). Zenith sold out last week (Zenith always made a quality product). Thus, did a major US industry disappear.

Meanwhile, Tijuana has become the biggie of TV manufacturing here -- Sony, Matsushita, Sanyo, Panasonic, Hitachi, Samsung, and most are expanding (Samsung is building its second plant here, a half billion dollar factory). The frenzied activity has rained millions of dollars and thousands of jobs on Tijuana, where industrial land prices (would you believe) have shot past those of neighboring San Diego. Wages are low in Tijuana. Said one prominent developer, "The sweatshop economy has evolved. Tijuana needs a future, and the future is becoming industrialized."

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California continues to have its troubles, lots of them. For instance, Orange County is bankrupt, at least statistically, due to the disaster brought on by mismanagement of its funds. Los Angeles County is running an annual deficit of $1.2 billion, and has announced that it will eliminate up to 18,000 jobs. Unemployment in California is running at a 7.6% rate . . . Ten percent of California's general fund goes to the support of illegal aliens. Two-thirds of all babies born in LA Country public hospitals are born to mothers who are illegal immigrants. Half of all Californians speak a language other than English. In LA County 25% of the residents are on welfare. Despite layoffs of 300,000 in aerospace alone, there will be additional thousands of layoffs due to the coming closing of military bases plus a cutback in military suppliers. Recent development: Orange County Chief Executive Officer William Popejoy has quit, complaining that his bosses had become so meddlesome that he could no longer do his job.

* *

Europeans have pushed back the proposed date for their long-heralded "single currency" from 1997 to 1999. There are 15 members in the European Union, and although a few months ago they were enthusiastic about the single currency idea, they are now cooling off. One problem is that each nation in Europe has a

different economy, a different production potential and a different financial make-up. If a single currency is instituted, the nations of Europe would be under strict discipline to control their inflation and their deficits. Politically, that would present huge problems. Said Philippe Sequin, President of France's National Assembly, France is already in a single currency mode with Germany, having decided to link the franc to the mark. He further states, "Having made this choice, we are now bearing the full brunt of competitive devaluations of other European nations who have not made the same choice we have."

* *

With Microsoft's stock careening over 100, it might be well to listen to these words from CEO (America's richest guy) Bill Gates: "I quit Harvard to start Microsoft, and I don't regret that. But I enjoyed college a lot and wish there had been time to finish. When you hear success stories about people who quit, it might be tempting to believe that education doesn't matter for the entrepreneurially minded. But unless a person has an idea that's very time-critical and thinks that he might never have as good an idea again, it's probably better to finish. Having a degree can be critical for getting a desirable job later on. For example, even though Microsoft was founded by a couple of college dropouts, it's unusual for us to hire anybody for a key position who is interrupting his or her educational career."

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Planning to retire? *Fortune* offers these suggestions along with the monthly cost-of-living per person (COL) in each area. Sarasota, Florida (no state income tax, third of city's population over 65) -- $1,500 per month COL. Okanagan Valley in Canada (great golf, fishing) with $900 month COL. Western County, Ireland (peaceful country living, free travel on trains and buses if you're over 65) with COL at $700. San Jose, Costa Rica (model democracy, good health care, friendly to Americans) -- COL $600. Guadalajara, Lake Chapala, in Mexico (largest US retiree population abroad, bridge clubs, English language newspaper, etc.) at a low $500 COL.

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Barton Biggs of Morgan Stanley offers this rundown of manias better known as booms and busts. Of course, this has nothing to do with what's happening in the US market today, does it?

BOOMS AND BUSTS

		% Rise Bull Phase	Months of Bull Phase	% Decline Peak to Trough	Months of Bear Phase
Tulips	Holland (1634-37)	+5900%	36	-93%	10
Mississippi Shares	France (1719-21)	+6200	13	-99	13
South Sea Shares	England (1719-20)	+1000	18	-84	6
American Stocks	U.S. (1923-32)	+345	71	-87	33
Mexican Stocks	Mexico (1978-82)	+785	30	-86	18
Silver	U.S. (1979-82)	+710	12	-88	24
Gulf Stocks	Kuwait (1978-86)	+7000	36	-98	30
Hong Kong Stocks	H.K. (1970-74)	+1200	28	-92	20
Taiwan Stocks	Taiwan (1986-90)	+1168	40	-80	12
Gold	World (1976-82)	+711	41	-64	17
Japanese Stocks	Japan (1970-199?)	+3570	230	?	?
Japanese Stocks	Japan (1982-199?)	+495	84	?	?
American Stocks	U.S. (1974-95)	+715	247	?	?
American Stocks	U.S. (1982-95)	+505	156	?	?

* *

I've often thought that the best way to cut crime is with lots of police decoys. That way the muggers and criminals can never be sure of whom they are accosting. Now Virginia has become the sixth state this year and the 25th overall to relax regulations for those wanting to carry a concealed weapon. Any resident of Virginia without a felony or mental disability is virtually assured of getting a permit. Personally, I'm all for it. Allow any citizen proficient in handling a handgun the right to carry one. Let the muggers, carjackers and other low-lives wonder whether their next victim might be their biggest mistake. Here are some facts: nearly 60% of convicted felons surveyed said, "A criminal is not going to mess around with a victim he knows is armed with a gun." Seventy-four percent of burglars said they avoid burglarizing homes where people are home for fear of being shot. In Orlando, FL, after police set up a program to teach women to use firearms, the rape rate dropped 88%. In Kennesaw, GA, the city passed an ordinance requiring households to have a gun. Within seven months the burglary rate dropped 89%.

* *

The Camcorders are coming, and you have to wonder what the future of film is. The next major breakthrough in consumer camera technology will probably be the camcorder capturing hard-copy images. The big change -- the camcorders will operate without film. The technology is already in place, and it's just a matter of time before the camcorder camera for consumers is on the market at a price they can afford.

* *

Doctors: The world may be getting tougher for doctors (government red tape, pressure to join HMOs, cost of malpractice insurance), but that hasn't halted applications. Medical school applications in '94 rose to their highest level ever, 46,000 applying for 16,000 places. Harvard alone had 4,000 applications for a class of 165. What's happening? Some want the prestige, some want the money, some want the security, and believe it or not, a lot want to help people, to do some good, to make a difference.

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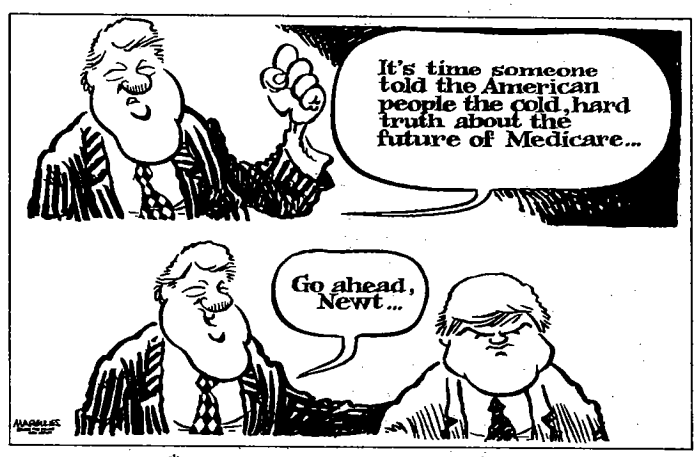
In a speech a few weeks ago, our President (Bill Clinton) invoked the phrase "middle class" two dozen times and he used the phrase "common ground" almost as often. Yep, it's obvious that President Bill is moving to the middle ground in his never-ending campaign to get elected again. What is it this time, oh yes, he wants to be President again in '96. But the Prez is now faced with doing something about the budget deficit, and to do that he has to tackle a hot potato -- Medicare. The cartoon below addresses that issue.



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A new book by Kenkichi Ohmae entitled, "The End of the Nation State: The Rise of Regional Economies," is making waves in the business world. In an interview with *USA Today,* Ohmae was asked what is wrong with governments today. Ohmae: "They tend to be wealth-distribution devices as opposed to wealth-creation devices. They tend to use taxpayers' money and put it in the most inefficient areas. They tend to discourage new industries to emerge, new companies to come from outside, new capital to come in from outside, and new ideas to be tested in the marketplace . . . The role of the government should be to catalyze the free flow of corporations, capital, information, individuals. Very few governments understand the value of the global economy. In fact, they do the opposite -- they try to protect the weaker industries at the expense of taxpayers' money. The US today has world class industries in telecommunications, software, banking and aircraft. Yet the US government tends to spend a far greater time protecting the noisy minorities."

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Ya Gotta Have Faith Dept: Al Dunlap came to Scott Paper in April '94. At that time the paper company was having a hard time and was losing money, big time. Dunlap turned the company around, and in his first year he was at least partly responsible for Scott showing a $200 million profit (after losing $300 million the

preceding year). Whoops, Scott is now being taken over by Kimberly-Clark and what does Al Dunlap get out of his 15-month stint? Well, he gets an estimated $100 million from stock options. Scott Paper, by the way, is the eighth company Dunlap has turned around. And he's only 57.

* *

The US Treasury plans to issue a new, revised, hundred dollar bill, and the plan is throwing the Russians into a panic. Russia has become the single largest destination for US currency. An estimated $20 billion, mostly in $100 bills, was shipped to Russian banks last year. Treasury emphasizes that the existing $100 bills will not be recalled, but evidently a lot of Russians don't believe it. "Panic is inevitable," says Yuri Sirgeyev, deputy head of the currency department at the Moscow Credit Bank. The black market will be full of shady operators offering to exchange old notes for new ones at very high commissions -- say a $100 old bill for $70 or $80 a new one. Then this money will go to large banks that in turn will ship it to the US to exchange it for new bills at a one for one ratio." Russians were victimized in 1991 and again in '94 when their government issued new ruble bills and declared that only tiny quantities of the old bill could be exchanged. Many Russians lost their life savings. As a result, many Russian banks now reject $100 bills that were printed before 1990 or that are dirty or marred by handwriting.

* *

Really Good Times Coming? Futurist Harry Dent, Jr. told the National Association of Federal Credit Unions' annual convention here in San Diego that the nation is poised for the "biggest boom in history" starting in 1996 and lasting through at least 2007 . . . The information revolution is bigger than anything since the printing press or the discovery of America; it's bigger than the industrial revolution. Part of Dent's super-rosy scenario -- a Dow at 8,500, a pentium-sized chip that will harness the power of 16 Cray computers, and an exodus of 70 million Americans into what are now considered exurbs. **Russell comment:** Sounds good, and I'm ready.

* *

Rep. Sereno Payne of New York, was chairman of the House Ways and Means Committee, and chief Republican supporter of the income tax amendment (i.e., the Sixteenth Amendment). Payne supported the Sixteenth Amendment, voted for it, and managed it on the floor only because he believed that the nation should have the option of such a tax in time of war. The following is from a later speech by Payne on the floor of the House: "As to the general policy of the income tax, I am utterly opposed to it. I believe that it tends to make a nation of liars; I believe it is the most easily concealed of any tax that can be laid, the most difficult of enforcement, and the hardest to collect; that it is, in a word, a tax upon the income of honest men and an exemption to a greater or lesser extent, of the income of rascals. And so I am opposed to any income tax whatever in time of peace . . . I hope that if the Constitution is amended in this way the time will not come when the American people will ever want to enact an income tax except in time of war." **Russell comment:** Not only the Founding Fathers but the authors of the income tax would be aghast if they could see what this nation has allowed the income tax to become. The fact is that the income tax was originally a war-time option, but it's now become a yoke on the back of every American who earns an honest living.

* *

Amazing Facts: In 1994 the top 1% of income earners paid 26% of total federal income taxes while making 13% of pre-tax income. The top 10% paid 58% of the taxes. The top 20% paid 73% of the taxes. Get this -- the bottom 40% of income earners paid only 1% of taxes. The bottom 60% paid only 10%. This is fair?

Personally, I don't think there's any philosophical or moral justification for taxing a person at a higher rate simply because he or she is successful. Congressman Richard Gephardt says the rich have a "moral obligation to share their good fortune." Good fortune? More likely it's sacrifice, hard work, savings, ambition, ability. Clinton has told us that the immoral rich who raped the nation during the '80s must pay "their fair share." It turned out, of course, that the Clintons grabbed all they could during the immoral '80s. The only question, of course (and it is still being investigated), is just how much the Clintons grabbed. And how. At any rate, all we can hope for is that a much fairer flat tax or consumption tax is instituted. So far, of course, it's still all talk.

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Statistics: There are now upwards of 25,000 people in the US over the age of 100. The fastest growing age group in the US is the over-80s . . . Drew Bledsoe, 23-year old quarterback for New England got quite a contract -- $42 million over seven years with an $11.5 million signing bonus (he keeps the signing bonus no matter what happens) . . . Troy Aikman's (Cowboys) contract averages $6.23 million over eight years (but Aikman has had six concussions, one more and he could quit) . . . Fifty years ago there were about five million Jews in the US, or around 4% of the population. Now, fifty years later, there are 5.5 million Jews in the US, which drops Jews to only 2.3% of the population. What's happening? For one thing, fifty-one percent of young Jews now inter-marry; of these only 1 in 20 of their partners become Jews.

* *

Small World Dept.: My son Ryan and his step-father George together with Sam Goldwyn Jr. and his son Peter went fishing last week. They were fishing on the Big Horn River two hours out of Billings, Montana. I hadn't heard from them for days and was wondering whether they were surviving and how they were doing. Then I got a call from old friend Mike Robbins from the floor of the NYSE. Mike told me that a few of his floor member buddies were fishing in Montana and they ran into Ryan. When the brokers got back on the NYSE floor, they told Mike Robbins about it. Mike called me and said, "I've got word on Ryan." He related that Ryan was in good shape and catching a slew of 24-inch brook trout. How's that for communications, and it's not the Internet.

* *

More than 400 people died in Chicago during the recent heat wave, creating a traffic jam at the morgue. Not to miss an opportunity, one lawyer filed a class action suit against, who? -- Commonwealth Edison, whose power failed in some neighborhoods.

* *

Talk about being out-of-touch -- with Senators and Congressman planning to get rid of the IRS via a flat tax or consumption tax plans, the IRS announced (last week) a new program of nightmarish "compliance audits" for thousands of people with audits picked at random from various groups. Talk about idiotic public relations!

* *

It's a sad commentary on the nation, but the following is from *USA Today*: "An overwhelming majority of blacks, 87%, think Simpson is a victim of a racist criminal justice system. Only 6% of whites think so." Will Simpson be convicted? Is the Pope Jewish? Is Newt a Democrat?

* *

From our Scams and Frauds Dept. But hey, nobody's perfect, right?

. . . **SAN DIEGO — The leader of a family values group has been married five times, owes $18,000 in child support and has been accused of threatening his ex-wife and girlfriend, *The San Diego Union-Tribune* reported. Jim Harnsberger, 40, admits to making past mistakes.**

* *

Well, "Waterworld" (the movie) finally hit the theaters amid endless talk about it being "the most expensive film in history" at a cost of over $175 million. The reviews on the film were "fair" to "not bad." But what's interesting to me is how easily the news media can target the news. Let's put it in perspective. For instance, one B-2 stealth bomber (and the plane has plenty of problems) costs $2 billion, eleven times the cost of Waterworld, and how much do we hear about those incredible expenses?

* *

The situation at the Japanese banks is increasingly questionable. The fear is of a further collapse in Japanese real estate prices. If that happens, the further fear is that there could be a "meltdown" at the

Japanese banks. This, obviously, would affect markets around the world. Last week the Japanese ministry announced that it will not allow any major Japanese banks to fail. Cynics are saying that "where there's smoke ---."

* *

Talk, talk, talk -- about Whitewater, but what's really going on? The clearest thing I've read about Whitewater appeared in one of my favorite newspapers, the *International Herald Tribune.* Here's part of it:

"The public still has a right to know what the Clintons have never willingly offered, an accurate accounting of how much they paid for their half share of the Whitewater land investment. The committee also has an obligation to explore whether the Clintons' tax returns correctly reflected any losses that incurred in the Whitewater Development Company and any financial benefits they received from the firm, Mr. McDougal or his bank.

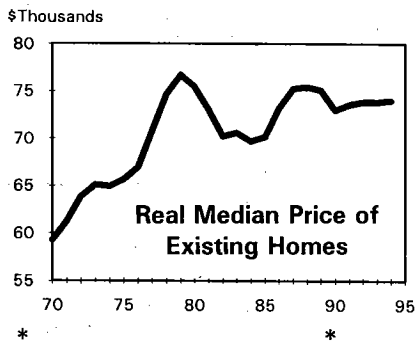
"One of the enduring mysteries of this presidency is why Mr. Clinton has been willing to absorb such tremendous potential damage rather than authorize a full accounting of the Whitewater deal. Now a report by the Resolution Trust Corp. gives the clearest picture yet available of the firm's finances. It shows that of Whitewater's losses of about $200,000, Mr. McDougal absorbed more than $158,000, while the Clinton's paid only about $42,000, far less than their half share.

"As for tax consequences, documents gathered for Senate hearings show that before his suicide, Mr. Foster worried considerably over whether the President's tax returns should show a loss from Whitewater land dealings. That might trigger a tax audit, 'a can of worms that shouldn't be opened,' he wrote."

Russell comment: The Clintons must agree because for three years they have acted as if the Whitewater "situation" was something that no one had a right to look into. Vincent Foster is now dead, presumably a suicide, so he can't talk. But in due time the American people will probably get a true look into that can of worms Foster was referring to. It could be mighty interesting.

* *

Many months ago I published a chart showing the ratio of the S&P 500 to the average price of a single family home. The chart showed that homes were historically cheap in relation to the stock market. Since that was written the market has climbed considerably higher while housing prices in many areas of the US have actually come down.



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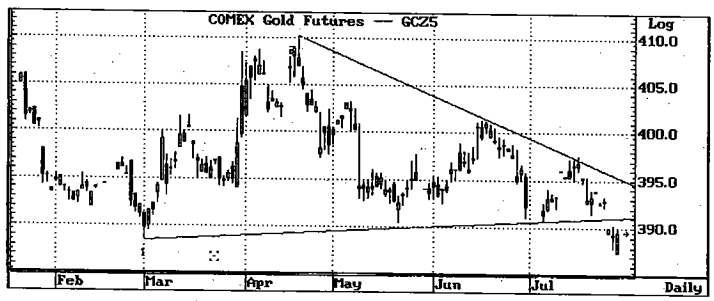
According to the latest Dean Witter research (July 12), "An important asset shift in the makeup of the household balance sheet is under way -- the second in the last three decades. Due to increased flows and higher valuations, the market value of corporate equities and mutual fund shares on household balance sheets *now exceeds net equity in real estate (homes and land) for the first time in about 25 years.* Russell comment: This doesn't mean that real estate is essentially cheap, but it does mean that compared with stocks real estate is cheap. Conclusion: you're better off buying a home at this point than buying stocks.

GOLD: The precious metals are generally "dead and down." When I say "dead" I'm referring to volatility (volatility traces percentage of movement either up or down). And you can see on this chart, volatility has been declining ever since its peak in 1980.

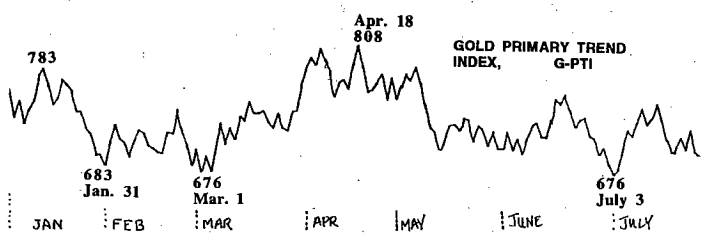
"After the calm comes the storm," and you can be sure that somewhere ahead we'll again see explosive action in gold as volatility surges. Of course, the operative questions are "When?" and "In which direction?"

As to which direction, my own guess is that the direction will be up, since gold is very cheap at its current price, and since an awful lot of "monetary paper" has been produced over the past decade compared with the amount of gold that has been produced.

The daily chart (December futures, which is the active contract) shows a clear break below the lower trendline. "False breakdown" or basic weakness? By the next Letter we should know. In the meantime, the stars of the gold equity picture are the Canadian (Toronto Exchange) twins, Euro Nevada and Franco Nevada. Both (terrific action) have moved up sharply in the face of the basically "blah" performance by both gold and the gold shares.



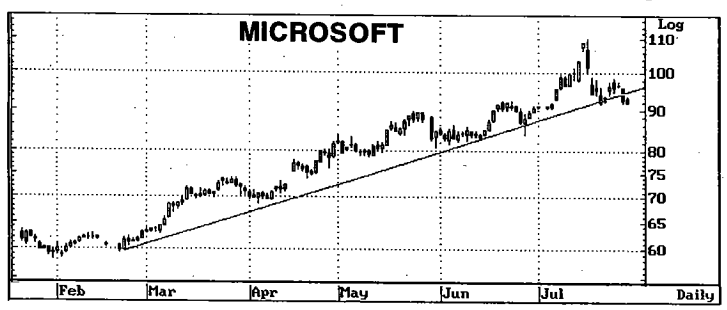
My Gold Primary Trend Index has simply moved sideways all during 1995. To its credit, it has correctly "told us" where gold is going -- which, so far, is nowhere.



LATE NOTES: On July 27 the market rallied with the Transports recording new record highs while the D-J Industrial Average halted exactly 3.52 short of its 4736.29 all-time high. This minor non-confirmation evidently set off a bit of weakness, with the Dow down the next day, and with the weakness carrying into the new week (beginning July 31).

I'm particularly interested in the action of Microsoft at this point. Big big volume came in at the recent high around 107. The stock then broke below 100 (as widely publicized Windows 95 was close to hitting the stores). As this daily chart shows, MSFT has sunk below its rising trendline and may be topping out.

I'm centering attention on MSFT because if there's one bellwether stock on the Board today, I believe it is MSFT. Also, CEO Bill Gates has been receiving enormous press as America's boy wonder, as the super-success of the computer world and as the "Richest Man in the US." Finally, the technology stocks have been the big winners of this rally, and MSFT is the "leader of the pack."



NEXT MAILING: Aug. 16, 1995